

USAWC STRATEGY RESEARCH PROJECT

**RESIDENTIAL COMMUNITIES INITIATIVE (RCI) --
A PRIVATIZATION MODEL FOR THE DOD?**

by

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This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

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ABSTRACT

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The Army's nationwide Residential Community Initiative (RCI) provides a new vision for solving an old problem. Years of funding shortfalls and resource allocation decisions created a significant deterioration in the construction, repair and maintenance of housing. The Department of the Army, with Congressional support, started RCI in an effort to leverage private funds through a partnering arrangement to stem this decline and improve family and soldier Quality of Life (QOL), overall service member satisfaction and retention in the all-volunteer Army. Congress conceived this program with legislation approved in 1996. Since that time, changes in the environment like September 11, 2001, the Global War on Terrorism and Operations Enduring Freedom in Afghanistan and Iraqi Freedom in Iraq continue to impact all Army programs. Other new initiatives under review by the Chief of Staff of the Army also have the potential to affect the RCI program. The purpose of this paper is to examine RCI and assess program progress, determine its ability to meet stated goals, identify areas of concern and recommend solutions to current, emerging and future challenges.

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RESIDENTIAL COMMUNITIES INITIATIVE (RCI) – A PRIVATIZATION MODEL FOR THE DOD?

INTRODUCTION

The Residential Community Initiative (RCI) is a nation wide program that offers a new opportunity for the Army. Years of funding shortfalls and resource allocation decisions created a significant deterioration in the construction, repair and maintenance of housing. In addition, other factors like Quality of Life (QOL) concerns, an increasing married population and efforts to reduce or consolidate facilities and installations all combined to create conditions ripe for change. Outsourcing and privatization pressures also began to emerge as alternatives that could result in savings across many government agencies. The Department of the Army, with Congressional support, started RCI in an effort to leverage private funds through a partnering arrangement to stem the declining quality of housing and improve family and soldier Quality of Life (QOL), overall service member satisfaction and retention in the all-volunteer Army. Congress initiated this program with legislation approved in 1996. Since that time, changes in the environment like September 11, 2001 and the Global War on Terrorism continue to affect all Army programs. Other new initiatives under review by the Chief of Staff of the Army also have the potential to affect the RCI program. There is a perception among many decision makers and key leaders that Privatization and specifically RCI will “save DOD millions of dollars in construction and O&M funds that can subsequently be diverted to other [transformation or modernization] programs”.¹ Others acknowledge the benefits of the program but may not thoroughly understand the implications or challenges RCI program managers are addressing in the early stages of this potentially far-reaching program. The purpose of this paper is to examine RCI and assess program progress, determine its ability to meet stated goals, identify areas of concern and recommend solutions to current, emerging and future challenges.

BACKGROUND

A combination of factors and events created both the problem and opportunities for a solution. Key problems center around five factors that contributed to the growing magnitude of the Army's housing challenges. First, the Department of Defense (DOD) historically fails to fund Operations and Maintenance (O&M) budget lines adequately enough to meet existing facility maintenance requirements. The resulting maintenance backlog and shortage of housing would take over 40 – 50 years to correct if the Army began to address the need immediately. This historic funding shortfall is due to perceived higher priority funding requirements and a cultural aversion to funding quality of life (QOL) necessities or projects. Promotions and awards during the “Cold War” era rewarded commanders and key leaders for initiatives and improvements in

warfighting capability and facilities typically did not fit into such a category. Commanders allowed installation facilities at locations like Fort Campbell, Fort Stewart, Hunter Army Airfield and numerous others to deteriorate beyond standards ever expected of a country with a \$397 billion defense budget for fiscal year 2004. During this same period, power projection from the United States became the mantra that occupied time on the calendars of many senior leaders in DOD and in the Congress.

Simultaneously the Cold War ended, officer and enlisted service men and women attrition increased and the Army seriously began to address factors contributing to service member dissatisfaction and retention. QOL issues do affect morale and morale does have an impact on retention. Studies such as the one conducted by Dr. Leonard Wong specifically cited QOL and poor housing as primary causes for service member's desire to leave the service.²

Another dynamic is the increase in number of military families. Unlike in the earlier part of the 20th Century, service members now have families. Most service members are married and this married population became more significant and began to speak with a "larger voice". This larger voice translated into a need for greater emphasis on housing availability and quality.

Efforts to gain a "peace dividend" after the Cold War resulted in programs to improve efficiency and reduce costs. The Base Realignment and Closure (BRAC) initiative is one such program that sought to divest of unnecessary installations and facilities that consumed proportionally greater portions of the O&M budget than justified by mission, purpose or capabilities. Several rounds of BRAC and congressional mandates requiring a quid pro quo for new versus old demolished facilities began to force decision makers to identify alternative facility options for the future.

Despite these growing challenges, DOD and Congress continued to review the situation and seek innovative options. In 1996, a new alternative surfaced with the Defense Authorization Act, now public law 104-106 110 Statute 186, that President Clinton signed on February 10, 1996. This bill opened the door for a new program entitled the Military Housing Privatization Initiative (MHPI).³ This initiative provides the Services with alternative authorities for construction, renovation and management of military housing for families and unaccompanied personnel. Under these authorities, the Services can leverage appropriated housing construction funds and government-owned assets to attract private capital and private developers in an effort to improve the QOL for soldiers and their families. This legislation provides a way to maximize use of limited appropriated funds, land, and existing facilities to encourage private sector investment.⁴

WHAT IS RCI?

When the President signed the 1996 Defense Authorization Act, he authorized appropriations for fiscal year 1996 for military activities of the Department of Defense, for military construction, which is articulated in detail under Title XXVIII – General Provisions, and Subtitle A – Military Housing Privatization Initiative.⁵ These provisions outline the definitions, general authority, loan guarantees, leases, ancillary support facilities, DOD housing funds and expiration of authorities pertaining to housing privatization. Inherent in the defense act is the services authorization to establish long-term business relationships with private sector developers to improve military family housing communities. The Army will provide the developer a long-term interest in both land and family housing assets.⁶

DEFINITIONS

The definition for privatization within the context of this initiative simply refers to the contractual use of private companies to provide products or perform services in order to meet a specific purpose or requirement. For RCI, privatization means the transfer of functions including construction, maintenance and management of housing to a private company in exchange for financial reimbursement, loan guarantees, rental guarantees and differential lease payments.

Thus, RCI is a DOD program that seeks to develop a partnering relationship with private industry in an effort to transfer housing and ancillary support facility construction, maintenance and management functions to a private organization that possesses the core competencies necessary to meet a DOD requirement in an efficient and effective manner.

THE PILOT PROGRAM

In 1998, the Army developed a pilot program under the provisions of the MHPI and named the program the Residential Communities Initiative or RCI. The intent of the pilot program was to focus on achieving successful privatization efforts at four Army installations and in September 1999, Fort Carson, Colorado became the first military installation in the RCI pilot program.⁷ The scope and installations included in the pilot program are shown in Table 1.

INSTALLATION	UNITS	YEAR
Fort Carson, Colorado	2,633	1999
Fort Hood, Texas	5,912	2001
Fort Lewis, Washington	3,982	2002
Fort Meade, Maryland	3,170	2002

TABLE 1. RCI PILOT PROGRAM PROJECTS⁸

The overall program encompasses 26 projects totaling 74,016 family housing units that are approximately 80% of the U.S. owned inventory primarily on Army controlled installations. This is a significant amount of facility construction and would cost DOD over \$7.2 billion (the current estimate for the first 17 projects) to complete and could take over 20 years using standard budgeting and contracting procedures.⁹

THE CURRENT PLAN

The program is extensive and touches the majority of the states that have a significant Army presence. Figure 1 reflects the current plan and distribution of homes at the time of the last program update in December 2003.



RESIDENTIAL COMMUNITIES INITIATIVE
Assistant Secretary of the Army (Installations and Environment)



CURRENT PLAN = 26 PROJECTS (74,016 HOMES)

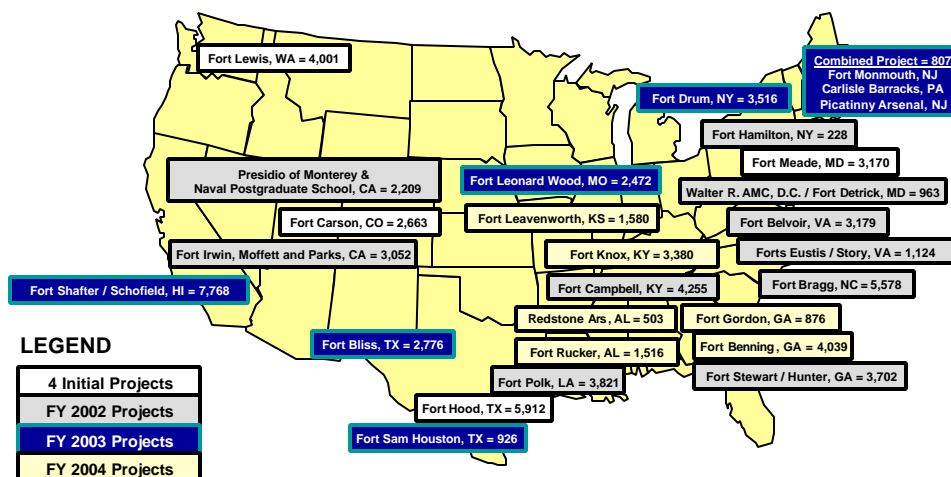


FIGURE 1. RCI PROJECT DISTRIBUTION AND PLAN AS OF JANUARY 2004.¹⁰

While, this program concentrates on military housing in the United States, members of the programming staff working for the Assistant Secretary of the Army for Installations and Environment (ASA I&E) indicate that the program is tailored for housing overseas as well. Pending minor modifications in coordination with various host nations, the program could serve to resolve some long-standing concerns that the United States is investing too much of the DOD budget in overseas facilities that the United States may ultimately return to the host nation at

little or no cost. There is no evidence that this was an anticipated cost savings of the program but it is a consideration as the program evolves.

RCI OBJECTIVES

Various stakeholders derived program objectives from their respective constituent needs, interests and possible benefits. Table 2 summarizes the objectives of the key stakeholders and alludes to the possible conflicts that could develop as the program matures. These conflicts develop because the program creates expectations and objectives that may evolve over time. Emphasis may also change from one stakeholder to another. In the early stages of the program, Congressional, DOD and program developer objectives drive the program. Yet, over time, stakeholders may assess success more in terms of user or local community objectives.

Stakeholder	Objectives
Congress ¹¹	<ul style="list-style-type: none"> • Provide DOD a mechanism for privatization of various facility requirements • Provide appropriations for military activities for military construction of housing and ancillary support facilities • Direct loans and loan guarantees • Establish guidance for leasing of housing to be constructed • Establish guidelines for program investments, funds, reports and expiration of authority
DOD	<ul style="list-style-type: none"> • Expand use of Privatization as a means to address facility shortfalls and O&M backlog • Address vocal concerns of a volunteer force that families and QOL issues impact retention and enlistments
ASA, I&E (RCI Team) ¹²	<ul style="list-style-type: none"> • Develop quality residential communities • Eliminate inadequate Army family housing by 2007 • Eliminate housing deficit • Sustain adequate housing • Leverage assets / funds • Attract quality partners • Obtain partner expertise / innovation / capital • Ensure reasonable profits/ incentive based fees • Maximize use of local (large / small) businesses • Protect interests with portfolio / asset management program

Stakeholder	Objectives
Service Members ¹³	<ul style="list-style-type: none"> • Obtain adequate housing regardless of station location • Obtain timely housing immediately upon stationing • Feel a sense of community experienced by the civilian population in similar communities • Live within reasonable proximity to where they must work • Receive assurance that management would complete facility maintenance and repairs in a timely manner
Local Communities (city, county and states agencies)	<ul style="list-style-type: none"> • Not initially included in development of stated objectives

TABLE 2. STAKEHOLDER OBJECTIVES

Evaluation, revision and assessment of objectives and interests over the duration of the program will remain critical to long-term program success. A more detailed look at objectives and their impact is included in a subsequent section of this paper. However, recognition that competing objectives and interests typically affect every program is essential to understanding how criticism develops for many large-scale projects or programs. The most significant competing objectives emerge between the local community and indirect consequences of program execution. The issue then becomes a matter of managing the various interests through communication, proper management and appropriate organizational structures.

RCI CONGRESSIONAL AUTHORITIES

DOD does not have an open authorization to execute the RCI program independent of congressional direction and control. An understanding of the statutory provisions of the 1996 Defense Authorization Act and subsequent legislation sets the framework for what is permissible during the execution of the program. The 1996 financial and other authorities as derived from the actual legislation include:

- Direct loans at below market rates
- Mortgage guarantees against base closure, downsizing, extended deployments
- Subsidized rents if required for financial feasibility
- Investment in development entities (e.g., limited partnerships, etc.)
- Use local market standards, ground leases and development rights
- Build ancillary neighborhood facilities

These authorizations remain fundamental to development and execution of the RCI program. Programmers in the ASA I&E RCI office indicate that these guidelines provide flexibility to address “ancillary” program needs but in some cases also restrict partner activities.¹⁴ This was especially apparent when conflicts developed between competition with the Army and Air Force Exchange System (AAFES), the Defense Commissary Agency (DeCA) and Moral Welfare and Recreation (MWR) activities. In an effort to address surfacing issues, Congress added several additional authorities and restrictions since the 1996 legislation. The list below includes the most significant new authorities and restrictions:

- Allowed school construction and local / state housing authorities to participate
- Precluded competition with AAFES, DeCA, and MWR activities
- Provided direction on provision of utilities / services and reimbursement
- Extended legislation to December 31, 2012

This legislation added since the 1996 act is significant in that it demonstrates congressional willingness to adapt the program to meet evolving requirements. It also implies DOD credibility with congress as DOD agencies identify issues and request additional legislative variations from Congress.

THE RCI PROCESS

The RCI process includes many stages, phases and components. The most important of which are the concept to transfer portions of the process and then the occupancy and longevity period. Each stage creates opportunities and challenges for the stakeholders that will require involvement at numerous levels to ensure program success. This section includes the fundamental aspects of the process. A more detailed presentation of the process is included in the appendix.

During the concept to transfer phase, DOD personnel work to develop the overall project plan as a collaborative effort between the Army and the developer. During this six to twelve month period, the partners work jointly to create a Community Development Management Plan (CDMP). This plan includes all of the details that specify how the developer will execute the program. In addition, the long-term success of the initiative centers on the on the Portfolio and Asset Management (PAM) team. This team monitors the process in an effort to protect the Army’s investments and assets against potential threats, losses, shortfalls or new developments during the 50-year life of the partnership. The Army at the headquarters and installation level does a two-tiered evaluation. First, the headquarters performs Portfolio Management and monitors portfolio level analysis to assess and ensure overall program success. Secondly,

installation personnel prepare, use and analyze Asset Management information locally to ensure the program is meeting the needs of occupants and installation requirements.¹⁵

Figure 2 below captures the components of the PAM process. Specific aspects of the assessment/evaluation procedures are as of yet untested but fundamentally developed.

The organizational structure used to perform PAM and the specificity of the established metrics is worthy of greater discussion and is included later in this paper.



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PORTFOLIO AND ASSET MANAGEMENT COMPONENTS

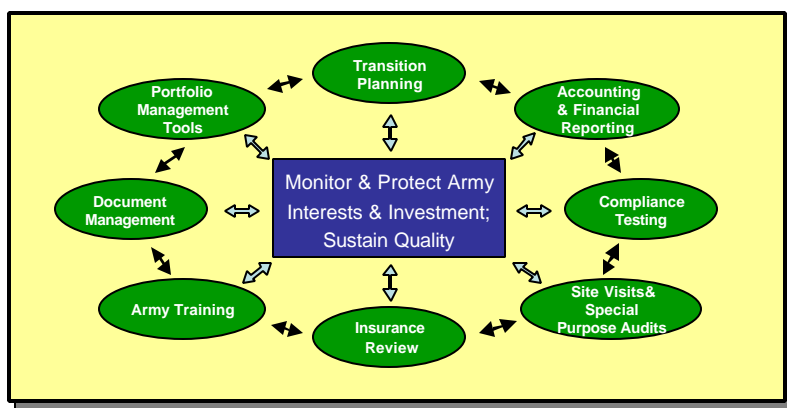


FIGURE 2. PORTFOLIO AND ASSET MANAGEMENT COMPONENTS¹⁶

The occupancy and use phase of the process is more obvious and typical of any program. Once the housing units are complete, there are critical details that specify follow-on management, maintenance and operation criteria for the new community. This is an important phase because the Army will determine customer satisfaction during this period and the developer must work to sustain the community environment and quality facilities so new families will desire to live in RCI housing units. This is also an important aspect of the program because it is during this phase that occupants will sign documents authorizing payment of their Basic Allowance for Housing (BAH) to the management office. In exchange, the management office will provide facility maintenance and repairs when required in addition to all routine service items typically handled in the past by the installation Director of Public Works (DPW).

Both aspects of the RCI process, concept to transfer and occupancy and use, involve new procedures for the military and private sector partners. However, communication and information sharing to ensure complete process understanding will benefit all stakeholders.

The ASA I&E RCI office characterizes the RCI process with the five bullets below:

- RCI Privatization projects are complex / multi-\$B, 50-year deals
- The Army uses Limited Liability Corporations / Limited Liability Partnerships to "partner" with private Developers
- The Army out-leases underlying land and transfers title of improvements
- Development Partner collects rents equivalent to Basic Allowance for Housing (BAH) from all occupants
- CDMP / Land Lease documents (crafted by the Army and development partner) provide details of the deal

The RCI Program office acknowledges evolutionary modifications to the process with the addition of each new project, and like with most major programs, change or modification is inevitable. Those who resist change and are unwilling to adapt to new requirements will stall or complicate the process and possibly even put the program in jeopardy. Figure 3 below summarizes the current RCI process.

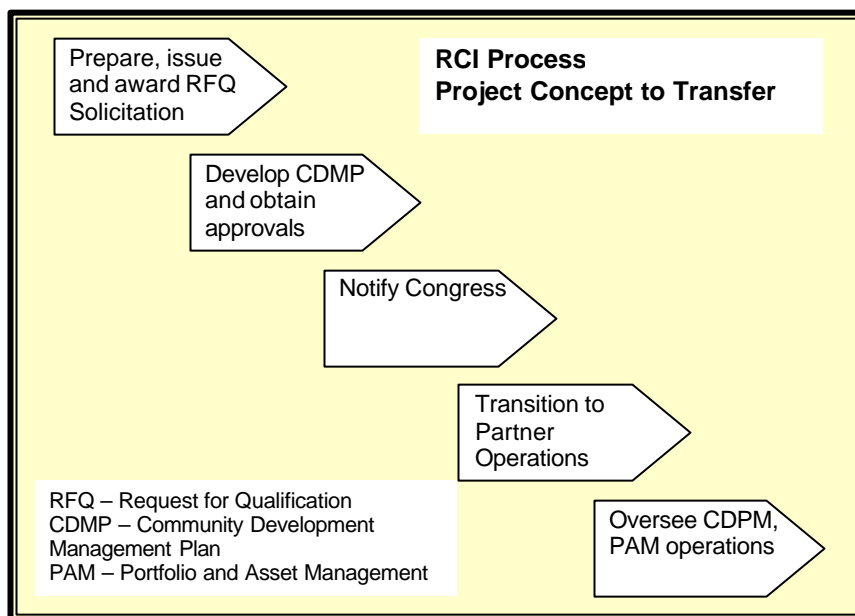


FIGURE 3. SUMMARY OF THE RCI PROCESS FROM CONCEPT TO TRANSFER

THE BENEFITS OF RCI

The Army will invest only \$380 million to leverage nearly \$7.2 billion (for the first 17 projects) of new housing and ancillary facilities as the RCI program builds new communities for service men and woman and their families across the United States. Equally important is that this investment will build out over 74,000 units in 5-10 years vice the nearly forty years projected if constructed using military construction (MILCON) funding.¹⁷ The resulting “communities” will offer exceptional amenities not currently available for the majority of military families living in installation housing. New community centers, bike and riding trails, tot lots and in house improvements clearly exceed standards seen in existing housing. However, many of the benefits may be intangible at least in the early stages of the program. RCI will permit families currently living off the installation to move into a new military community where friends and neighbors who share similar hardships and concerns can live and gain mutual support from each other. Deployed military personnel will gain reassurance and peace of mind that family members are safe and living in suitable and adequate housing. Confidence from knowing local repair personnel and service teams will benefit not only the stay behind family members but also the deployed service member. Consequently, soldier and unit readiness will improve. Travel times to and from work will likely decrease. Chaos and anguish over permanent change of station (PCS) moves will drastically diminish since house-hunting trips will become outdated. The need for temporary lodging will decrease as on installation housing availability increases and personnel management adjusts to the fixed mix of housing at each installation. Assignment timing to the extent permitted by mission requirements will ensure a smooth personnel flow that matches housing availability. Resort like communities with increased occupants will gain a synergy that begins to generate local income for on-installation businesses.



FIGURE 4. ARCHITECTURAL VIEW, PLANNED COMMUNITY CENTER AT FORT POLK¹⁸

Family members will walk to the local restaurant, or shop down the street and meet with friends locally. They will not need to drive “downtown” to find a decent meal or recreational opportunities. Figure 4 (above) and Figure 5 (below) are representative of the concepts and qualities of facilities RCI partners are planning for Fort Polk where Congress approved a CDM and partner in April 2003.¹⁹

Figure 4 depicts an architecturally pleasing facility that the developer designed specifically to match regional construction themes. It incorporates games rooms, meeting rooms, the community business office, swimming pools in some cases and numerous other amenities (as shown in Figure 5) typically seen in communities across the U.S. but not typically included in military projects due to a shortage of funds, competing requirements and a need to support “warfighter” requirements instead of family or QOL programs. These new community centers, serving as a focal point for activities, are only one of the significant program additions that will change the way families live while serving in the military.



FIGURE 5. PLAN VIEW OF COMMUNITY CENTER AT FORT POLK²⁰

Housing is equally impressive and includes state of the art improvements, utility efficiencies and safety features. Incentive programs included in the RCI agreements provide reason for developer innovation and improvements in design, construction and renovation procedures – much like seen in typical commercial developments where profit motivates attempt to optimize quality and need with cost. The combination of improved housing and addition of key ancillary facilities will clearly improve DOD’s ability to enlist and retain quality service members. Dr. Leonard Wong’s report as previously cited identified “housing” as a primary

time
of



contributor to service
member desires to
separate from the service.²¹
These benefits could not
possibly come at a better
as our Nation at War will
perhaps struggle to retain
service members returning
extended deployments to
support the Global War on

Terrorism. DOD is also wrestling
with retention of National Guard
and reserve forces that have varying expectations that do not match current deployment
realities. Is RCI a benefit that DOD could offer to some of these returning service members? Is
it possible to “incentivize” service in the Guard and Reserves with benefits other than monthly
salaries while ensuring maximum occupancy of privatized facilities? This may get to some of
the second and third order benefits not currently recognized as this new program comes on line
and is worthy of consideration and perhaps future study.

FIGURE 6. RCI HOUSING AT FORT CARSON

QOL improvements are significant and may even lead to some unanticipated benefits if
leveraged to address other DOD challenges. Another possible benefit, although not highlighted
in program documentation is the long-term windfall for DOD if they satisfactorily execute this
program. Increased credibility with Congress will surely benefit portability of this program to
others that are similar in nature but require congressional intervention in an effort to expand the
program authorizations. The legislation, added since the 1996 Act, is significant in that it
demonstrates congressional willingness to adapt the program to meet evolving requirements.
Proper program management and successful execution are critical for this initiative, which if
successful, may transform the way DOD builds communities and houses families.

PROGRAM CHALLENGES AND IMPLICATIONS

A comprehensive search during the study of the RCI program led to some unanticipated
findings. Perhaps, unanticipated because of the inherent perception that government (non core
competency) programs are bureaucratic, slow, inefficient and more costly than comparable
programs initiated and executed by private commercial enterprise. This may build an
expectation that privatization will save significant funding, accomplish organization goals much

more quickly and ultimately provide a better and more innovative solution to the challenge driving the need. RCI is a privatization program. It is a name or title coined by the Army to capture the intent of the program – residential (implies housing), community (but not just housing) and initiative (something new and perhaps innovative). Indeed, RCI is an interesting name that conjures up a positive expectation for a “new” program. However, RCI remains a privatization program and therefore susceptible to lessons learned from other similar privatization attempts. RCI, due to its nature and association with the military, may even be prone to challenges or opportunities not seen in previous privatization efforts. This occurs because the military is a bureaucracy itself with various regulations and rules that planners, developers and others must follow. However, a new system or process like RCI may provide opportunities to streamline the process and ultimately decrease some bureaucratic aspects.

Another reason for the unanticipated identification of the challenges was that almost everyone with some knowledge of RCI speaks very highly of the program. Most media coverage is positive and typified by this statement from a military official in the following quote.

THE quality of life for married soldiers and their families at Fort Carson, Colorado is getting better because of housing privatization ... by 2004 every family on post will be living in a new or like new house ... and the homes will include features such as double sinks in master bedroom, walk-in closets, ceiling fans. Adding to the family friendly environment are neighborhoods that include playgrounds, green space, running and biking trails, statues and a community center.²²

What is there not to like? Without even looking at the detailed benefits of this initiative, one might suspect that RCI is a tremendous program. However, there are sources that indicate specific challenges with the RCI program. As one might suspect, reports do exist from government agencies such as the Government Audit Office (GAO) and the Army Audit Agency (AAA). These reports address preliminary aspects of the program, offer suggestions for resolving budget issues and cite a need for better reporting and continued management attention. In one report to the Secretary of Defense, GAO, while not directly addressing RCI, focuses on Privatization of military housing and details concerns about the overall slow start to Privatization.²³ In a subsequent report four years later (July 2002) titled, *Military Housing – Management Improvements Needed As the Pace of Privatization Quickens*, GAO reports to the Subcommittee on Military Construction, the Committee on Appropriations and the House of Representatives and emphasizes the need for management improvements and oversight.²⁴

Thus, the analysis that follows is critical to determining the challenges as they currently affect the program if an effort to answer the question as to whether RCI is meeting the DOD and congressional program goals as outlined in an earlier section of this paper. Challenges

themselves do not independently condemn a program but offer a comparison against program benefits to determine ultimate program worthiness. It is also possible to propose some recommendations that might mitigate the risks or challenges that could negatively impact the longevity of the RCI program.

SHORT TERM PROGRAM CHALLENGES

Personal interviews with senior management from the ASA I&E Privatization and Partnerships office, Assistant Chief of Staff for Installation Management (ACSIM) and the RCI project offices reflect an extremely upbeat attitude and strong sense of satisfaction concerning progress with the RCI program. However, representatives from each office quietly acknowledge that there are challenges. Most of the problems cited in this section are working issues. They are not “show stoppers” but merit careful attention so that they do not ripple through the entire program and endanger the programs longevity or portability. There are also other challenges that are of concern but in many ways routine for a program of this size and therefore are not discussed in detail in this paper. These challenges include time delays, footprint decisions, environmental issues, requirements determination, training, historic properties, construction standards and small and disadvantaged business participation.²⁵

Other problems exist simply due to the size of the project and the unique nature of military installations, most of which the Government considers as federal property. RCI intends to add limited additional housing to the inventory to increase availability for nearly every Army Family. “The Army pegs its housing shortfall at about 10,000 units, while the Air Force says it is 30,000 units short.”²⁶ As the program grows for all services, the number of additional units and ancillary facilities will also grow. This is and will continue to create a number of concerns for local communities who need to participate in the management of such growth.

Effects on Traffic Flow and Patterns

The Washington Post continues to follow the progress of RCI in and around the Washington DC and Northern Virginia region. They have highlighted the possible benefits but also raise some concerns. “Fort Belvoir is right in at the stage of a major transformation, said Col. Thomas W. Williams, the garrison commander. The housing initiative is going to lift the whole face of this post.”²⁷ Clearly, the local leaders are enthusiastic about the program and the apparent visible benefits. However, in the same article, the author goes on to cite concerns from county officials.

They worry that the Defense Department is not committing sufficient resources to transportation, schools and other infrastructure in the surrounding areas and that

development will end up adding to Northern Virginia's congestion woes. We have already communicated to the post that our great concern that everything they're proposing at Fort Belvoir will have a major impact on the inadequacy of our transportation infrastructure and exacerbating it said Supervisor Gerald W. Hyland (D-Mount Vernon) whose district includes most of the post.²⁸

The county is concerned and perhaps rightfully so. The response from Maury S. Cralle Jr., deputy to the garrison commander and RCI program manager at Fort Belvoir said, "The Army doesn't offer proffers ...we are building on our own land. This land is not subject to the zoning requirements of the county."²⁹ At this time, this technically may be true. However, again community relationships will not benefit from this hard stance approach to dealing with local community stakeholders concerns. Communities such as those around Fort Belvoir believe costs to resolve traffic congestion problems will climb into the millions and they want to know who will pay the bill. Recent security concerns and procedures further exacerbate this situation. While solutions remain challenging, the stiff arm approach or delay tactics because of a hope that the problem will go away, will not work and may impede various other program successes.

Term of Lease

The agreement terms for RCI include provisions for a land lease and partnership that will exist for 50 years with options for renegotiation and renewal at that time. A long-term lease shifts a significant amount of risk off the developer since he can gain a steady (and presumably consistent) income flow from the BAH payments from occupants. RCI mitigates or eliminates some marketing costs, property taxes and other business concerns that challenge typical property managers.

RCI managers indicate that a 50-year lease serves as a automatic filter eliminating contractors that may not have the resources to endure a long term project. Traditional low bidder issues are not a factor because it benefits the contractor/developer/partner to build the best, most efficient units possible so that long-term maintenance costs will lead to increased project revenues. This raises several questions for future review: 1) do these benefits outweigh the risks that now shift to the government and 2) is it possible to gain the benefits with a 10, 25 or 30 year lease? Many people will not lease a car for three years because of the lost flexibility and uncertainty about the future despite the decreased monthly costs. Some within the ASA I&E offices question the need to assume the risks associated with a 50 year lease when other less aggressive instruments of lesser durations are available. Much is now set in motion but this is an area worthy of review, analysis and documentation so that future programs

can gain the correct balance of risks. Perhaps a 25-year lease could entice developers to participate yet would provide the government more flexibility.

Project Management Team Occupancy of Housing

Units at Forts Carson, Lewis, Hood and Meade are complete and raising new questions. Developer management teams are preparing to provide service to the new occupants. Contract terms base future funding incentives in many categories one of which relates to the responsiveness and quality of the management team and service personnel. However, management teams cannot live on the installations or in the housing they service. While this may seem understandable due to legal and regulatory requirements, it clearly stands at cross-purposes with the desire for responsiveness and does not reflect best business practices for similar commercial ventures. As projects come on line and developers vie for incentives this is likely to become a growing issue.

Commercial or private owned facilities on government, untaxed land is another embedded issue that crosses through many of the challenges presented in this paper. Management team occupancy of RCI housing would contribute to the debate and possibly weigh heavily against the Government's case.

The sampling of short-term issues above reflects some potential challenges that require attention. Issue identification is a critical and first step in the problem solving process. Once the leadership or management correctly identifies an issue then it becomes a matter of managing the various interests through available communication methods, proper management and appropriate organizational structures.

LONG TERM PROGRAM CHALLENGES

A GAO report in July 1998, *MILITARY HOUSING Privatization Off to a Slow Start and Continued Management Attention Needed*, critically raised issues about the slow implementation of DOD's new housing initiative. GAO stated, "implementation of the initiative is off to a slow start. Two years have passed since the new authorities were signed into law, yet no new agreements have been finalized to build or renovate military housing. More than a dozen projects are being considered; however, only one project is close to contract signing."³⁰ The report also highlights issues concerning the need for management involvement. Unfortunately, it appears that DOD's efforts after the 1998 report focused primarily on speed and less on management and good program development. The increasing pressure to "get the program off the ground" precluded a more deliberate approach to dealing with the new program. DOD noted that, "progress has been slower than expected because the new initiative

represents a new way of doing business for both the military and the private sector.”³¹

Regardless, DOD pressed forward with an aggressive implementation program that led to some shortfalls in program development and management structure. These following sections highlight several long-term issues that require focus, understanding and possibly resolution if RCI will serve as a positive model for other privatization initiatives let alone a successful program in itself.

Organization and Evaluation of Implementation

Pressure to execute a swift RCI program generated a need to rapidly stand up an RCI program office and in 1996, the Assistant Secretary of the Army for Installations and Environment (ASA I&E) stood up the RCI Program Office. This office worked the program development at all levels and faced a number of challenges. First, they needed to demonstrate rapid program growth and overcome the GAO assessment indicating a slow start. The program office also needed to develop the processes, procedures, and framework necessary to guide a long-term venture that would change the way the Army managed housing and potentially many other facilities. Consequently, short-term definable requirements marked the focus of the program for a number of years. Again, this is understandable and not a condemnation of the program. Instead, it is perhaps limited justification that makes it easier to understand where the initiative is (or is not) based on the genesis of the program.

The strategic challenge faced by DOD after standing up the RCI office is twofold and is typical of similar corporate initiatives and a frequent study area in academia. First, the organization needs to formulate a strategy complete with appropriate vision, goals and other methodologies. Secondly, they identify implementation controls and strategy surveillance that can provide the feedback mechanisms necessary to make sure the program is achieving the desired result. The initial RCI organization worked directly for the ASA I&E and outside the adjacent office, the Assistant Chief of Staff for Installation Management (ACSIM), the office functionally responsible for Army housing. The RCI office worked closely with the appropriate ACSIM offices but no direct oversight existed except at the higher ASA I&E level allowing the RCI team to work somewhat autonomously. This led to a streamlined organization that adapted quickly and overcame a number of shortfalls cited in the 1998 GAO report. However, implementation of the program raises some new issues. Is the organization that gave “birth” to the program best suited to evaluate progress, make program adjustments and assess execution in terms of stringent metrics? Was the original strategy correct and will it achieve the desired results? Schendel and Hofer offer the following dilemma: “Strategic control focuses on the dual

questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.”³² Discussions with members of the current RCI program office indicate that the strategy is being implemented as planned and that the results are those intended.³³ There are clear program goals and progress, as judged by the projection for adding, replacing or renovating over 74,000 homes by 2010, is truly astonishing. The team even cites current efforts with portfolio and asset management as the key to protecting the government’s interest and mitigating risk in the program (see figure 2 earlier in the report). Despite efforts within the RCI organization, organizational bias may prevent the proper “strategy surveillance and implementation” (as shown in Figure 7) that is possible from a different organizational structure. Can you expect the program developers to veer from the course they themselves developed or as the saying goes, do not expect those that gave birth to kill the baby? This may create a conflict of interest with the execution of the PAM.

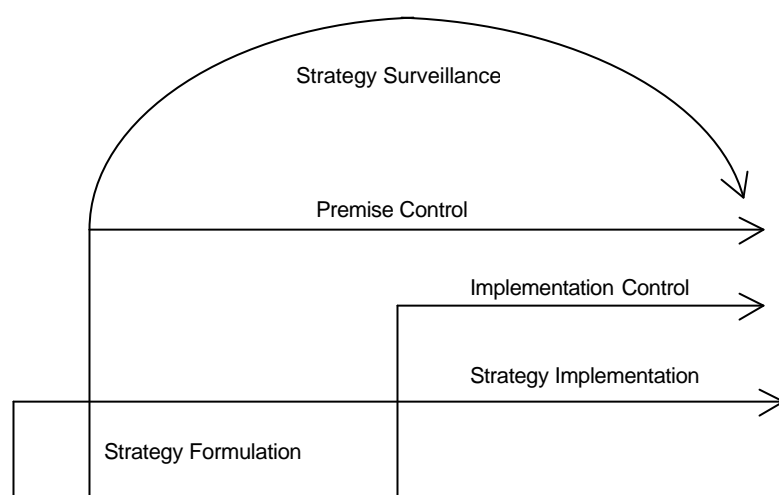


FIGURE 7. STRATEGIC CONTROL IN THE STRATEGIC PROCESS³⁴

Thus, the challenge is one of organization. A more objective organizational element, separate from the program designers, may better perform the “Portfolio Asset Management” functions. This is actually a challenge at two levels. The “Asset Management” function seeks to provide day-to-day oversight, protection of housing assets and operations of each specific project. The installation Director of Public Works (DPW), RCI project office and developing partner is responsible for this level of PAM. At the Headquarters level, the RCI Program Office

will do the “Portfolio Management” which is the oversight and protection of housing asset and operations across the entire portfolio of RCI assets.³⁵

The key to the long-term success of the RCI Program centers on the Portfolio and Asset Management (PAM) team. This team monitors the process in an effort to protect the Army’s interest and mitigate risk. The GAO’s report titled, *Military Housing Management Improvements Needed As the Pace of Privatization Quickens*, raises a number of findings including a need to take additional steps to protect the government’s interest.³⁶ Problems as cited by GAO are symptomatic issues that require a real solution and an organizational restructuring presented in this section may offer an approach to get at the needed solution.



RESIDENTIAL COMMUNITIES INITIATIVE
Assistant Secretary of the Army (Installations and Environment)



ORGANIZATION CENTRALIZED MANAGEMENT AT HQDA

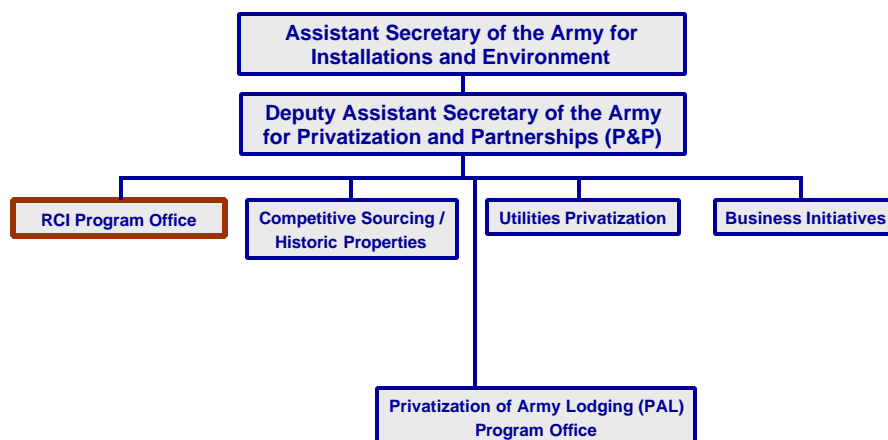


FIGURE 8. NEW ASA I&E STRUCTURE FOR PRIVATIZATION AND PARTNERSHIPS

In all fairness, it is important to report that the ASA I&E recently directed a organizational change and realigned the RCI office under the supervision of another recent restructuring effort. The Deputy Assistant Secretary of the Army for Privatization and Partnerships (P&P) now provides oversight for the RCI program (Figure 8), yet the structure internal to the RCI office remains relatively unchanged. However, it remains to be seen if this recent organizational change will resolve the problems noted in this section.

Effects on Local Rental Markets

Another issue that will likely raise local community stakeholder concern is the rental market impact. Previous Base Realignment and Closure (BRAC) efforts by DOD had a tremendous impact on local communities many of whom did not know the full extent of the decision until its implementation began. Although BRAC did buy many of the houses that owners could not sell. It is possible that increased RCI housing will significantly cut into many private and smaller rental and property managers business operations. This could squeeze out some private rental owners or small businesses and could have a negative impact on property valuations in each area adding additional units. Again, program executers offered local community constituents little up front opportunities to gain an appreciation for the impact of the program. While perhaps of limited overall consequence from DOD's perspective, a vocal minority could devalue the program.

A Changing Environment

The future and the unknown are hard to predict and subject to a Volatile, Uncertain, Complex and Ambiguous (VUCA) environmental conditions. These same conditions, if left unchecked, will force a need for unforeseen or after the fact changes in strategy, vision, objectives and goals. DOD's efforts at "Transformation and Jointness" are designed to get ahead of the VUCA environment or at least be as predictive as practical and possible. The RCI program is similar in nature and may require a reshaping or rebalancing in the future. Impacts from the war on terror, changes in the structure of the Reserves or National Guard and associated incentive programs, development of expeditionary forces and restationing of forces in the United States or around the globe could significantly affect the RCI program. This is not a new challenge. The question is how RCI is prepared to address these issues and implement mechanism, organizational structure needs and other methods that will better anticipate, prepare for and respond to these new but very likely future challenges. Several examples may best demonstrate the issue.

A key contributing factor to the success of the RCI program is that BAH will provide a steady and consistent stream of funding for the developing partner. Will this make future revisions to BAH a significant challenge? Will developers work to leverage rates in their respective areas to gain larger annual streams? What happens if a sustained recession occurs and rates do not keep up with developer/partner costs? The GAO says that "In seven projects, developers will receive about \$369 million more in profits and fees than anticipated because the contracts did not fully anticipate increases in service member housing allowances."³⁷

BAH changes in the future are likely and the inability to adjust in the short term indicates a potential for long-term and substantial cumulative impact.

Another issue that may grow as fast as the program is that of property taxes. Although perhaps anticipated during the development of the program, no one identified a solution to the possible issues if local county and state official begin to question the sovereignty of military installations that allow private businesses to conduct tax free operations under the DOD umbrella – a practice not allowed in other sales or business areas. This is true even at Post Exchange (PX) locations where commercial concessions set up and sell their wares. Even though customers question the tax added to their bill, they understand that private businesses must charge and subsequently pay state and federal taxes.

It is not possible to anticipate every possible future issue. However, research and analysis that relates the RCI program strategy with other DOD initiatives such as Transformation may ensure that major programs do not get at cross-purposes.

THE FUNDING QUESTION

Funding is always a critical aspect of any initiative as is certainly true with the RCI program. The ASA, I&E RCI project office cites ability to “leverage assets / funds” as a key program goal. They do not say, “decrease costs, expenditures or funding requirements” and the use of the word “leverage” is intriguing. Investigation reveals that this wording and the concept it represents is the slight of hand that helped give life to the program. It did so by building an expectation of savings. As noted earlier, many believe that privatization will decrease costs. Experts in the private sector frequently cite outsourcing, which in many ways is similar to privatization, as a method for decreasing costs. “Outsourcing can be defined as turning over all or part of an organizational activity to an outside vendor ... and is generally considered as a very powerful tool to cut costs and improve performance.”³⁸ It is understandable why many in DOD believe that the Army will save money with RCI. Indeed, there may be some cost savings per se if DOD compared the government cost of new housing and management with the private cost the same product. However, this is not the concept behind RCI. Some sample analysis may best prove this point. “In fiscal year 1997 alone, DOD spent \$3 billion to operate and maintain Government-owned and Government-leased housing.”³⁹ However, this \$3 billion figure is actually only a percentage of the total requirement. This is because DOD and each respective service determines how much of the requirement, including any backlog, gets funded during each Program Objective Memorandum (POM) – the process services use to program funds against specific requirements. Consequently and historically, the Army may “choose” to

fund only 40-50% of the known O&M requirements per year. Thus, this number grows almost exponentially and remains an unfunded item by choice.

The slight of hand or shell game with RCI and indeed the entire MHPI is that the program now becomes a “must fund” line item. Occupants will sign over every dollar of authorized BAH regardless of leadership desires to shift funds to other programs. No longer can services make a decision to skimp on repairs to save money or divert funding to other programs instead. This is much like the concept behind an individual forced savings program touted by many financial planners. In a way, this is very good news, especially for those who will live in housing, that now by contract will receive adequate maintenance and repairs when needed – at least in concept. The rub is that with this forced program creates a decrease in flexibility for the services. The Army G1 (Personnel Management) who must budget for BAH is eager to add a much increased line item to their account. What some in the Army may not yet comprehend is that the perceived “fat” of a “huge” O&M budget is getting significantly leaner and untouchable.

This is not necessarily bad news. However, recognition and hence management of this decreased management flexibility and analysis on impacts to the way DOD does business will surely prevent future surprises. Unfortunately, like with many programs, there is an apparent reluctance for management from each of the Army level staffs to raise or at least highlight the significance of this program nuance.

THE SCORECARD

One primary purpose of this paper is to objectively look at the RCI program and determine if the program is meeting established goals and objectives. Prior sections of this paper highlight the basics of the RCI program while noting several short and long-term challenges that directly or indirectly relate to the objectives. This section serves to summarize the objectives as originally stated earlier in the paper and provide a focus for future effort should congress, DOD or the RCI Program Office decide to do a midcourse adjustment or rebalancing.

Table 3 below is a simple summary or scorecard that compares stakeholder objectives against perceived issues raised in the course of this paper. Overall, it is readily apparent that RCI is achieving many of the major objectives. There is no indication or research results that suggest any problem with meeting Congressional guidance as specified in the 1996 Defense Authorization Act directing the program. In fact, there is some indication that Congress is very pleased with the program and may push to implement other similar programs. DOD objectives focused on the QOL issues and ability to leverage funding to meet a critical deterioration of family housing for service members. Again, indications are that the progress is achieving

tremendous success despite some questions about the long-term implementation and ability to sustain a quality program.

Stakeholder	Objectives	SCORECARD/COMMENTS
Congress ⁴⁰	<ul style="list-style-type: none"> • Provide DOD a mechanism for privatization of various facility requirements • Provide appropriations for military activities for military construction of housing and ancillary support facilities • Direct loans and loan guarantees • Establish guidance for leasing of housing to be constructed • Establish guidelines for program investments, funds, reports and expiration of authority 	<ul style="list-style-type: none"> • Yes, clear through 1996 and subsequent authorizations • Yes, by leveraging BAH and partnership with private developers • Yes • Yes, some revision may be needed • Yes, however long term oversight organization may be undeveloped at this time
DOD	<ul style="list-style-type: none"> • Expand use of Privatization as a means to address facility shortfalls and O&M backlog • Address vocal concerns of a volunteer force that families and QOL issues impact retention and enlistments 	<ul style="list-style-type: none"> • Yes, key strength - \$380 million leveraged to gain \$7.2 billion. • TBD, yet short term assessment is exceptional positive
ASA, I&E (RCI Team) ⁴¹	<ul style="list-style-type: none"> • Develop quality residential communities • Eliminate inadequate Army family housing by 2007 • Eliminate housing deficit • Sustain adequate housing • Leverage assets / funds • Attract quality partners • Obtain partner expertise / innovation / capital • Ensure reasonable profits/ incentive based fees • Maximize use of local (large / small) businesses 	<ul style="list-style-type: none"> • <i>No, yes for quality communities but no for meeting 2007 goal – some program delays</i> • <i>No, not by 2007</i> • TBD but indications are positive. • <i>Yes, however leveraging results in a significant decrease in flexibility for services</i> • Yes • Yes, positive evidence of success • Yes – will require future assessment to ensure incentives match services • Yes

Stakeholder	Objectives	SCORECARD/COMMENTS
	<ul style="list-style-type: none"> Protect interests with portfolio / asset management program 	<ul style="list-style-type: none"> <i>No, current/projected organizational structure does not appear to exploit use of disinterested/unbiased management</i>
Service Members ⁴²	<ul style="list-style-type: none"> Obtain adequate housing regardless of station location Obtain timely housing immediately upon stationing Feel a sense of community experienced by the civilian population in similar communities Live within reasonable proximity to where they must work Receive assurance that management would complete facility maintenance and repairs in a timely manner 	<ul style="list-style-type: none"> Yes, commensurate with local standards Yes, once inventory matches requirements Yes, significant improvements in progress and planned at many locations Yes, significant improvement for many Yes, based on projected incentives but subject to program implementation
Local Communities (city, county and states agencies)	<ul style="list-style-type: none"> Not initially included in development of stated objectives 	<ul style="list-style-type: none"> <i>Although not extensively included in initial goal development, many short term issues will effect the off base community</i>

TABLE 3. RCI PROGRAM SCORECARD

The first area falling short on scorecard is internal to the ASA I&E RCI Program Office. The initiative is behind schedule but the RCI office is coordinating adjustments that show a new program complete date of 2010 vice 2007. The ability to leverage \$380 million of DOD funding to “seed” \$7.2 billion of construction as part of the first 17 projects is a laudable achievement. However, surprises may surface in the future as other DOD and service component leaders understand what “leverage” means and what flexibilities are lost. Service members are the biggest anticipated winner because of this program. Notwithstanding long-term implementation issues, service members will tremendously benefit from this program and are overwhelmingly positive across the board. LTC Gary Langford, a battalion commander and Division G3 at Fort Carson from 2000-2003 said that “RCI is an incredible program. It will fix a system that was structured to make QOL issues like housing compete directly but unsuccessfully with the need

for beans and bullets”⁴³ The major shortfall under the RCI offices preview and now under the DASA P&P is the execution of separate and unbiased implementation controls or Portfolio Asset Management (PAM) as termed under the RCI program. This is perhaps the biggest identified shortfall that fortunately is one of the more easily resolved issues. Now that the DASA P&P office is in place, several adjustments in organization and personnel can make a positive impact on implementation. The final stakeholder of notable involvement is the local community. Research for this effort did not discover any stated objectives for or from the local community. As a result this area was not part to the RCI teams overall guiding goals or objectives. Consequently, issues are beginning to surface that reflect this shortfall and will require mitigation or damage control in the future if left unaddressed in the short term.

RECOMMENDATIONS

RCI is an innovative implementation of a relatively commonplace movement to privatize Government operations. The program is ongoing and results from this study indicate that the program should continue with several recommended adjustments. These recommendations, already alluded to throughout this report, include:

- Conduct a complete internal program review. Redefine the program vision, goals, objectives, and overall strategy. The strategic management model in figure 9 proposes one traditional method to realign and rebalance this program much like what occurred during the initial phases of the program's development.
- Establish an implementation organization that will execute surveillance and implementation controls in accordance with strategic guidance and direction vice morph with the growth and development of the program. Confirm metrics and empower this implementation organization to assess and analyze.
- Develop a mechanism to involve local community stakeholders in the program. Involve stakeholders who may not believe they are not being heard – local communities (city, county and state agencies) before situations worsen.
- Address the possible need for a panel – perhaps similar to arbitration teams to review the contentious matters and identify alternatives. Maintain a positive program spin since there is a lot riding on this early construction privatization initiative. This may serve as a good way to revolve at least some of the short-term challenges.
- Review or develop mechanisms that can better anticipate our changing environment or unexpected events that will affect the RCI program. Develop solutions and provide feedback to the implementation team.

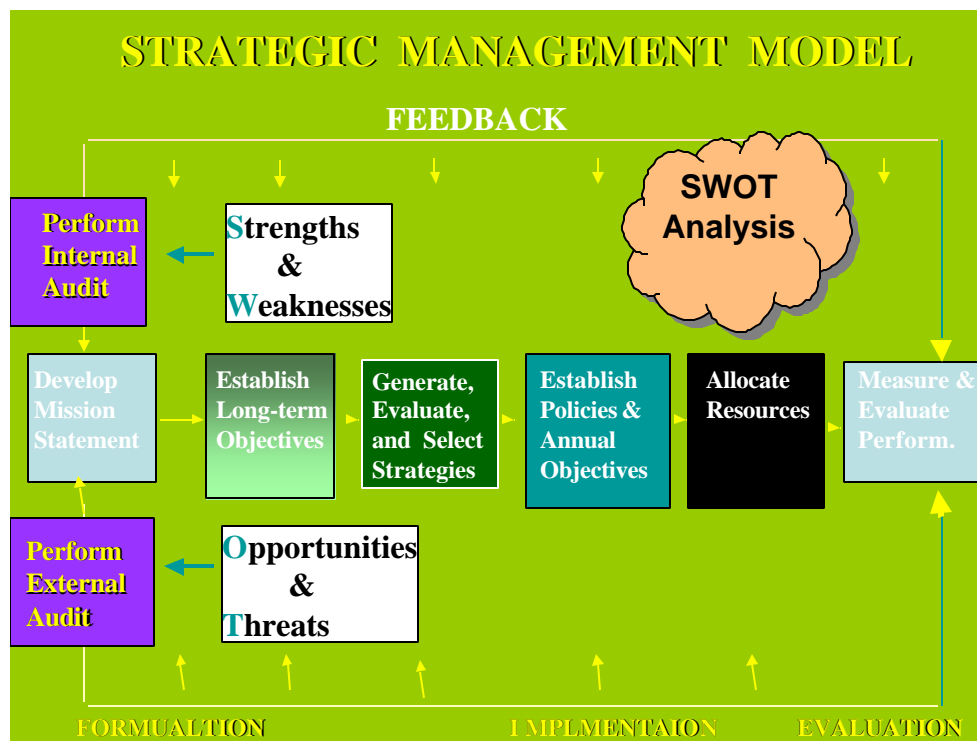


FIGURE 9. RECOMMENDED STRATEGIC MANAGEMENT MODEL⁴⁴

- Consider using this and other on going MHPI efforts as an opportunity to establish a Joint service program. Consolidate some of the headquarters oversight within the Joint Staff in Washington, DC and realign program responsibilities accordingly.

Even a good program can benefit from periodic reviews, adjustments and scrutiny. The proposed recommendations, at the least will likely stimulate some discussion, and at best will result in program modifications that will lead to better execution and implementation.

CONCLUSION

Transformation and the challenges DOD faces now and in the future will continue to require creative, innovative and visionary solutions to infrastructure and facility challenges. Privatization provides mechanisms to change the way DOD meets facility requirements and RCI personalizes these mechanisms in a specific way with a clear set of immediate goals and objectives. RCI is an incredible program that is transforming the way Services demonstrate care for families and take care of soldiers, sailors, airmen and marines. This program is specifically getting to the CSA's desire to focus on core competencies and privatize areas that

others can execute more efficiently and in a more innovative manner. Thus, the overarching conclusion of this paper is that the RCI program is a tremendous solution to DOD's significant ageing housing situation. The tangible benefits are laudable even in the early stages of this program and long term benefits, including yet undiscovered second and third order benefits, may well surface in the future if DOD chooses to exploit this program. However, there are challenges that require acknowledgement and solutions. An objective look at the oversight and management organization is critical to the long-term success of the program. Oversight by those who develop a program may result in blind spots that lead to unanticipated and ultimately unrecognized shortfalls. Organizational adjustments and a review of traditional strategic management models will serve to sustain the anticipated benefits of this program. RCI, as a program and potentially one of the most successful QOL improvements in 50 years, is already a privatization model for the Department of Defense.

WORD COUNT = 8756

APPENDIX

This appendix includes a more technical look at the mechanics of the RCI process that history will document as an incredible success or condemn as a uninformed, unilateral attempt to play a shell game and shift responsibilities for a challenging facet of our installation infrastructure and facilities.

CONCEPT TO TRANSFER

Once DOD identifies an installation for participation in the RCI program, the acquisition process begins in an effort to find developers who are interested in joining the RCI program. The acquisition process uses a Request for Qualification (RFQ) procedure that seeks to attract innovative, quality private developers who bring industry best practices to the growing RCI program. Developers submit their qualifications for subsequent evaluation based on the premise that the selected firm is the most highly qualified to begin discussions with the Army create a mutually agreed upon business plan that will meet specific site project needs.⁴⁵ The Army bases selection on a quantifiable analysis of each developer's submission. In doing so, the Army publishes Minimum Experience Requirements (MER) for use during an initial screening. The MER includes variables such as developer experience and capabilities in: (1) project development, (2) property management, and (3) capital formation.⁴⁶ After the initial screening, the Army announces the project site (or installation) with a two-step RFQ.

Step one of the follow on two-step process determines the competitive range for a group of sites using the five evaluation factors:

- Experience
- Financial Capabilities
- Organizational Capabilities (Corporate)
- Past Performance
- Small Business Plan (General History)

Step two begins by notifying each of the developers in the competitive range from step one that they are able to bid on any site listed in the original solicitation. If so desired by the developer they may then submit new plans for evaluation by the Army's review team composed of experts within DOD. Four new criteria form the basis for the evaluation:

- Preliminary Project Concept Statement
- Financial Return
- Organizational Capability (Installation Specific)
- Small Business Utilization Plan (Installation Specific)

While not reimbursable work, the first few steps of the RFQ process require the developer to make a commitment to the project. The criterion primarily focuses on data readily available to the developer from routine business activities but specificity is necessary should the bidder desire to remain competitive in a aggressive construction market.

After selection of a single developer for each advertised site, the developer (now a partner with the installation) creates a plan that specifies the developer's proposal for a long-term relationship with the Army. The plan becomes the Community Development and Management Plan or CDMP. The CDMP is an extensive document that includes details on the project development, financial operations and operations and property management. The CDMP is unique in that it provides mechanisms for interested parties to manage the proposed project before congress offers final approval for the plan. The RCI Program Office cites the following benefits derived from the CDMP process:⁴⁷

- Allows Army/developer to work through issues collaboratively, and ensures identification and acknowledgement of major issues before execution of the plan.
- Provides a forum for the Army to consider developer proposals concerning the use of specific privatization authorities or initiatives.
- Provides a mechanism for conferring with Congress, local communities and other organizations to ensure the plan addresses, where possible, the needs of all interested parties.

The CDMP process is a collaborative effort by the Army and the developer. During the majority of the seven to eight month process, the partners (Army representatives and the developer) work jointly to shape and hew a masterful CDMP. Once the CDMP is complete, the Army submits the plan to Congress for their concurrence. Congress can object to all or portions of the plan. However, once approved, the Army issues a Notice to Transition and within months, all assets and operational requirement responsibilities shift to the partners who typically consist of a contractual limited partnership or limited liability company formed by the developer and Army as partners.

The key to the long-term success of the RCI Program centers on the Portfolio and Asset Management (PAM) team. This team monitors the process in an effort to protect the Army's investments and assets against potential threats, losses, shortfalls or new developments during the 50-year life of the partnership. In development of the PAM, the Army established a two-tiered metrics system to use when monitoring and measuring RCI project performance. First the metrics:

- Soldier/family satisfaction

- Enhancement/preservation of housing
- Mitigation of risk to the project
- Successful development completion

Next, the Army at the headquarters and installation level does a two-tiered evaluation.

First, the headquarters performs Portfolio Management and monitors portfolio level analysis to assess and ensure overall program success. Secondly, installation personnel prepare, use and analyze Asset Management information locally to ensure the program is meeting the needs of occupants and installation requirements.⁴⁸ Figure 2 in an earlier section captures the components of the PAM process and figure 3 summarizes the entire process. Specific aspects of the assessment/evaluation procedures are as of yet untested but fundamentally developed. The organizational structure used to perform PAM and the specificity of the established metrics is worthy of greater discussion and is included later in this paper.

The underlying mechanics are more complex and based on interrelated processes that include the gaining military installation, its partnering developer, designer, builder and management team, elements from ASA I&E offices, congress, the Office of Budget and Management (OMB) and several other peripheral parties. There are also several other provisions when including “ancillary facilities” in the CDMP. Ancillary facilities are what make RCI different, i.e. communities and not just housing areas. Facilities can include various community amenities such as community centers, swimming pools, tot lots, playgrounds, biking/jogging paths and other non-revenue generating amenities. Revenue generating facilities and amenities are authorized but by law can not compete with AAFES, DeCA or MWR activities and requires approval from the lead activity board of directors and the Army Secretariat.⁴⁹ Conceptually, the full community concept is attractive and appears to offer many features historically short at U.S. installations. However, coordination with local private communities and at county and state levels as the projects develop may result in increasing concerns. This is an area addressed in more detail later in the paper.

OCCUPANCY AND USE

The CDMP specifies the details for the proposed follow-on management, maintenance and operation of the new communities developed as part of the RCI program. In most cases, RCI partners will begin managing existing facilities even before new housing and amenities are complete. This will ease the transition as new units are complete and potential occupants arrive at new duty assignments. Regardless of existing or new unit housing, occupants will report to the RCI team housing management office to receive a housing assignment. Move in will occur

much like in the past with several key exceptions. First, the occupant will sign documents authorizing payment of his/her Basic Allowance for Housing (BAH) to the management office. Likewise, "tenants" will be responsible for their utility costs. In exchange, the management office will provide facility maintenance and repairs when required in addition to all routine service items typically handled in the past by the installation Director of Public Works (DPW).

Occupants involved in the new program will soon outnumber those in the old program. When this occurs, the RCI PAM office and the installation PAM team representatives will surely gain more insight into the benefits and challenges of the RCI process for occupants.

Both aspects of the RCI process, concept to transfer and occupancy and use, involve new procedures for the military and perhaps for the private sector partners. However, communication and information sharing to ensure complete process understanding will likely benefit all stakeholders. The ASA I&E RCI office characterizes the RCI process with the five bullets below:

- RCI Privatization projects are complex / multi-\$B, 50-year deals
- The Army uses Limited Liability Corporations / Limited Liability Partnerships to "partner" with private Developers
- The Army out-leases underlying land and transfers title of improvements
- Development Partner collects rents equivalent to Basic Allowance for Housing (BAH) from all occupants
- CDMP / Land Lease documents (crafted by the Army and development partner) provide details of the deal

The RCI Program office acknowledges evolutionary modifications to the process with the addition of each new project, and like with most major programs, change or modification is inevitable. Those who resist change and are unwilling to adapt to new requirements will stall or complicate the process and possibly even put the program in jeopardy.

ENDNOTES

¹ BG Joseph Fil, "RCI at Fort Irwin," briefing from RCI meeting held at Fort Irwin, CA, 17 March 2003.

² Dr. Leonard Wong, "From Generation to Generation," lecture, Carlisle Barracks, PA, U.S. Army War College, 11 August 2003, cited with permission of Dr. Wong.

³ RCI Program Office, "1996 Defense Authorization Act," available from <<http://rci.army.mil/programinfo/legislation.html>> ; Internet; accessed 16 January 2004.

⁴ RCI Program Office, "Army Residential Communities History," available from <http://rci.army.mil/programinfo/RCI_Initiative.html> ; Internet; accessed 21 December 2003.

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⁶ RCI Program Office, "Army Residential Communities History," available from <http://rci.army.mil/programinfo/RCI_Initiative.html>; Internet; accessed 15 September 2003.

⁷ Ibid.

⁸ Ivan Bolden, interviewed by author, 22 December 03, Washington, D.C. A pre-coordinated interview occurred in the RCI program office with Mr. Ivan Bolden Thomas A. Kraeer both senior project managers working in the RCI Office of the Office of the Assistant Secretary of the Army for Installations and Environment. During the interview Mr. Bolden and Mr. Kraeer provided verbal details and various documentation outlining the RCI program, history, process, challenges and issues and future possibilities.

⁹ Rhonda Hayes, "RCI Program Update to the Private Sector Leadership Council," briefing slides dated November 6, 2003, Washington, D.C., 22 December 2003, 2.

¹⁰ Dean Stefanides, "RCI Program Overview," briefing slides dated January 2004, Washington, D.C., 31 December 2003.

¹¹ RCI Program Office, "1996 Defense Authorization Act," available from <<http://rci.army.mil/programinfo/legislation.html>>; Internet; accessed 16 January 2004.

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¹³ BG Joseph Fil, "RCI at Fort Irwin," briefing from RCI meeting held at Fort Irwin, CA, 17 March 2003. Derived from BG Fil's presentation and discussion with proposed RCI contractor and discussion of community development planned proposal during a review at Fort Irwin.

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¹⁵ Don Spigelmyer, Army's Residential Communities Initiative (RCI) Army Family Housing (AFH) Privatization Program," information paper for Assistant Secretary of the Army for Installation and Environment, Washington, D.C., August 2003.

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¹⁷ Bolden.

¹⁸ Polk-Picerne Partners, LLC, *Fort Polk Community Development and Management Plan, Appendix IIB, Fort Polk Architectural Plans*, (Fort Polk, LA, 2003), II-B-24.

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²⁰ Polk-Picerne Partners, LLC, *Fort Polk Community Development and Management Plan, Appendix IIB, Fort Polk Architectural Plans*, (Fort Polk, LA, 2003), II-B-25.

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²² Marian R. Hansen, "The New Look of Army Housing," *Soldier* 56, Sep 2001, 1.

²³ General Accounting Office, *MILITARY HOUSING – Privatization Off to a Slow Start and Continued Management Attention Needed* (Washington, D.C.: U.S. General Accounting Office, July 1998), 1.

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²⁵ Bolden.

²⁶ George Cahlink, "Home Improvements," *Government Executive* 33 (Apr 2001): 2.

²⁷ William Branigin, "For Military Post, A Transforming Mission," *The Washington Post*, 21 November 2002, sec T, p.20.

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³² D.E. Schendel and C.W. Hofer, *Strategic Management* (Boston-Toronto: Little, Brown, 1979), 18.

³³ Bolden.

³⁴ Georg Schreyogg and Horst Steinmann, "Strategic Control: A New Perspective," *Academy of Management Review* 12 no. 1 (1987): 91.

³⁵ Hayes, 10.

³⁶ GAO, *Military Housing – Management Improvements Needed As the Pace of Privatization Quickens*, 2-3.

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³⁸ Jerome Barthelemy, “The seven deadly sins of outsourcing,” *Academy of Management Executive* 17 (2003): 87.

³⁹ Stacie R. Remy Vest, “Military housing privatization initiative: A guidance document for wading through the legal morass,” *The Air Force Law Review* 53 (2002): 4.

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⁴² BG Joseph Fil, “RCI at Fort Irwin,” briefing from RCI meeting held at Fort Irwin, CA, 17 March 2003. Derived from BG Fil’s presentation and discussion with proposed RCI contractor and discussion of community development planned proposal during a review at Fort Irwin.

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⁴⁴ Bob Murphy, “Strategic Management,” briefing slides, Root Hall, Carlisle Barracks, U.S. Army War College, 12 February 2003.

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